



17 October 2017

**Office of the Company Secretary**

The Manager

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**ELECTRONIC LODGEMENT**

Dear Sir or Madam

**Annual General Meeting presentations**

In accordance with Listing Rules, I enclose the presentations of the Chairman, Chief Executive Officer and Chairman of the Remuneration Committee, which will be delivered today at the Telstra Corporation Limited 2017 Annual General Meeting.

Yours faithfully

**Damien Coleman**  
Company Secretary

# TELSTRA ANNUAL GENERAL MEETING 17 OCTOBER 2017

## CHAIRMAN'S SPEECH

### 1. Welcome – and details of meeting process

Thank you Pauline for the acknowledgement of country earlier.

Good morning ladies and gentlemen.

My name is John Mullen and it is my great privilege to be the Chairman of your company.

On behalf of my fellow directors it is a pleasure to welcome you all this morning and I also extend a very warm welcome to the many shareholders joining us today online.

We have a quorum, and I would therefore like to declare the meeting now open.

A Notice of Meeting was distributed earlier, setting out the business and resolutions to be considered at today's meeting, and I will take that Notice as read.

There are 5 items of business on today's agenda:

- Presentations by myself and the Chief Executive Officer, Andrew Penn;
- Discussion of our 2017 financial statements and reports;
- Consideration of the re-election of Directors;
- Consideration of the proposed grant of Performance Rights and Restricted Shares to the CEO; and finally,
- Consideration of the Remuneration Report.

Voting on items three to five will be conducted by a poll, and that poll is now open.

If for any reason you wish to leave the meeting early, you can still vote by completing your voting card and placing it in one of the ballot boxes near the exits.

For those shareholders who have registered to use the LinkVote app, it is also now open for you to lodge your votes electronically if you so wish.

I would now like to introduce my colleagues with me today.

With me here on the stage are:

- Andrew Penn, Chief Executive Officer;
- Damien Coleman, Company Secretary;
- Warwick Bray, Chief Financial Officer; and
- My fellow members of the Board.

Can I also introduce Andrew Price from our auditors Ernst and Young.

Andrew is available to answer any questions you may have on the conduct of the audit, or on the auditor's report itself.

### 2. A year of solid progress

Let me start by making some comments about Telstra's performance in the 2017 Financial Year.

2017 was a year of solid progress for the company, a year where we delivered on our guidance to the market and grew income, earnings and profit on a continuing or like for like basis.

On a reported basis from continuing operations, Total Revenue increased by 4.3 per cent to \$28.2 billion and EBITDA was up 2 per cent to \$10.7 billion.

One of the most important measures for any company though is that it continues to attract new customers and this year Telstra added 218,000 new retail mobile services and 132,000 new retail broadband services. In addition we achieved 676,000 new NBN connections.

These results show we are very much holding our own in what is an increasingly competitive and rapidly changing marketplace.

This year we also continued our important work to continue to reduce costs and boost productivity.

We were able to reduce our underlying fixed costs by \$244 million and we remain on track to achieve at least \$1.5 billion of productivity savings by FY22.

In short we still have a long way to go but we are making good progress.

This year the Board announced a fully franked final dividend of 15.5 cents per share, bringing the total dividend for the financial year to 31 cents per share. That, combined with the \$1.5 billion on market and off market share buy-backs completed during the year, means that we returned \$5.2 billion to shareholders in the 2017 financial year. This level of return was one of the highest made by an ASX listed company.

Shareholders would also be aware though, that this year we announced a change to our dividend policy and because I know that this is so important to many of you, I would like to comment on that in some detail.

In understanding why we took this decision it is firstly important to understand the context.

### **3. But also a year of tremendous challenge**

Telstra today is a strong, well run and well performing company, but like many companies around the world, we are also facing unprecedented change and challenge.

Our results this year were achieved in the most competitive market environment that I have seen in nearly 10 years as a Telstra Director.

For Telstra, those challenges are being driven by a number of factors including:

- intense competition in both the fixed and mobile marketplaces
- an exponential rate of change in technology and connectivity;
- an unprecedented growth in capacity demand;
- a rapid acceleration in the rollout of the NBN, which will ultimately cost Telstra some \$3b in EBITDA; and,
- the announcement that a fourth mobile network will shortly be launched in Australia.

Those factors all underpinned the Board's decision this year to change our dividend policy and I want to step through three of them carefully to help shareholders better understand why we took the difficult decision we did, and why it is absolutely the right decision for the company.

### **4. A rapidly evolving market**

The first challenge we are facing is the exponential rate of change in technology and the growing demand for connectivity.

In Australia, and around the world, digital technologies are now a primary engine for economic growth, an increasingly central feature of most of our lives, and a catalyst for incredible change.

I don't think there is any precedent for the scale of change we are seeing, all of which is driven by the extraordinary pace of technological innovation.

No business is immune from direct or indirect impacts and many are being disrupted.

And disruption occurs where someone finds a better, quicker, easier or cheaper way of delivering a service or a product and that is what people are continually trying to do in every industry, and if we do not stay ahead in our industry, then it will unquestionably also be done to us too.

Twenty or thirty years ago people thought little of having to wait a month or two for their phone to be connected.

Those days are over - in the age of Amazon, the age of Uber, the age of Netflix, if you can't go online and get a product the same day you go to another supplier.

That is the type of fast, streamlined, easy experience we aspire to offer our customers.

We want to eliminate frustrating and time wasting visits to stores; the e-mails and telephone calls backwards and forwards; the delays and complications and frustrations.

We receive around 135,000 customer service calls per day. When I say we are committed to delivering a brilliant customer experience we are not talking about reducing 135,000 service calls per day to 100,000 - we are talking about eliminating the need for as many calls as we possibly can, every single one if that is possible. We are talking about being able to buy and activate a new phone within a few hours over the internet. We are talking about making Telstra a pleasure to deal with 100% of the time, never a frustration.

That is our aspiration. That is the sort of company we must become if we are to succeed in the future. We are making substantial progress toward that but it not an easy challenge and we know that we still have a long way to go.

In addition, these industry changes are also fundamentally altering the economics of the telecommunications sector.

User prices have plummeted, with the average mobile subscriber price per megabyte falling 99 per cent between 2005 and 2013, and continuing to trend down as customers demand more value.

At the same time data speeds have sky-rocketed and today's 4G networks are 12,000 times faster at transmitting data than 2G was.

And the next generation 5G – a technology which Telstra will begin trialling next year – will be another 100 times faster than 4G again.

And all the while demand is increasing dramatically.

Last year over 5000 petabytes of data travelled over Telstra's fixed and mobile networks each day, 40 per cent more than the previous year and therefore the volume of data we carry is effectively doubling every 18 months to two years while customers are expecting to pay less and less.

I cannot think of many other large, established businesses in Australia where usage of core products and services is increasing at such a pace.

## **5. NBN**

The second major challenge Telstra is facing is the rapidly accelerating roll out of the National Broadband Network.

Shareholders will recall the NBN is expected to have around a \$3 billion negative impact on our earnings when it is fully rolled out.

To put that number into context, that is equivalent to the annual earnings of a major company the size of an Origin Energy, or a CSL, or even a Qantas.

It can take decades to build a business that size – but we don't have decades.

The NBN rollout began to gather pace in 2013, and over the past four years about 30 per cent of homes have been connected.

But while it has taken four years to connect 30 per cent, the NBN is expected to reach 85 per cent connection in only the next two years.

That means in just two years we expect to be facing the loss of 85 per cent of the overall \$3 billion in earnings, and that is obviously very significant.

One additional fact that shareholders may not be aware of is that there are now 180 registered re-sellers of NBN, of which Telstra is just one, so competition levels have also increased exponentially.

We currently enjoy a 52 per cent market share excluding satellite but this gives you an indication of just how competitive the market has become, and how profoundly the landscape is changing.

## **6. A fourth mobile operator**

The third challenge Telstra is facing is the imminent entry of a fourth mobile network operator into the Australian market. TPG is and will be a formidable competitor – of that there is absolutely no doubt.

We do not underestimate the impact this may have, the effect on pricing, nor the fact that we must – and most certainly will - continue to invest heavily to maintain our mobile network superiority and continue to improve the experience we offer our customers.

To reiterate then, in an environment where competitive pressures are already intense, Telstra also faces:

- unprecedented growth in capacity demand;
- an acceleration in the rollout of the NBN, with its implications on our earnings; and,
- the imminent launch of a fourth mobile network in Australia.

Any one of these issues on its own would be a significant challenge to any company but all of them together represent a unique challenge.

That then, is the context for the important changes we have made to our dividend policy this year.

## **7. Our change to the dividend policy**

With that background, let me now explain the new dividend policy itself.

Our new policy moves us away from an historical practice of paying out almost 100 per cent of net profits – ie returning everything we earn to shareholders and not keeping anything back for reserves against the future or for new growth opportunities.

From the 2018 Financial Year we will adopt an ordinary dividend payout ratio of 70 to 90 per cent of underlying earnings, which is in line with global peers and in line with other large local companies.

In addition to the ordinary dividend, we intend to return in the order of 75 per cent of net one-off NBN receipts to shareholders over time through fully franked special dividends. These are the one-off receipts relating to the transition of our customers to the NBN.

With the implementation of this new dividend policy we expect the total dividend in FY18 to be 22c per share, fully franked.

Then while we cannot predict earnings out into the future, as a consequence of our new dividend policy in FY18, the dividend has been reduced to a level where we would be disappointed if we were not able to maintain, or even again increase, the total dividend over time as we seek to grow underlying earnings and the special dividends decline.

However, this will of course depend on economic conditions at the time and our ability to grow underlying earnings in order to support the ordinary dividend. Any decision about future dividends will, of course, always be contingent on our underlying earnings and will be made in accordance with our capital management framework.

Now I would like to say that changing the dividend policy was one of the toughest decisions the Board has ever had to make.

We spent many long hours debating it, many sleepless nights working it through in our minds, knowing full well the impact it would have on our shareholders, and trying to arrive at the best balance between providing consistent shareholder returns and the strategic direction the company must take.

To have continued on the same course would also have put at real risk our other great strength which is our balance sheet and our "A" band credit rating. We believe that it is absolutely fundamental to maintain our balance sheet strength in this challenging environment so as to manage the business effectively and invest for growth.

And we must do that, because our potential competitors of the future are not just the traditional Optus and Vodafones, but are also likely to be dynamic newer companies like Amazon which does not pay a dividend and which reinvests an ever-growing cash flow in cheaper and better products.

Lastly, despite the dividend policy change, I would like to point out that Telstra's payout ratio and yield still remain at the higher end of ASX companies.

And, because we absolutely understand and appreciate the impact this policy change has had on shareholders, we took the decision to maintain the 31c dividend for this full year and gave advance warning of the changes, rather than just cutting the dividend overnight as is usually the case.

I don't like it, I know that you don't like it, but the world has changed and it would have been irresponsible of the Board not to take this tough but correct decision for the future.

And it is the future, and in particular Telstra's future growth opportunities that I would like to focus on now.

## **8. Growth**

I have had shareholders ask why we can't just go out and find growth businesses to replace the \$3b in earnings that we are losing because of the NBN, so we can maintain the dividend at previous levels.

Firstly, that is very easy to say and very hard to do. As I mentioned earlier, the earnings that we are losing are more than very few ASX companies achieve in total even after decades of existence. And to expect that we can suddenly just go out and create another \$3b EBITDA business overnight is simply just not realistic.

Secondly, I do not think that shareholders would appreciate our going out and spending billions of dollars to buy a business or businesses that would replace the lost earnings through acquisition, just for the sake of making up the numbers. This would be very expensive, could take us away from our core competencies into whole new areas of risk, and could jeopardise the strength of our balance sheet.

Instead, therefore, our strategy to grow the business, position it to meet the challenges and opportunities ahead, and to create long-term shareholder value, is built on three strong pillars:

- delivering much better customer experiences than we do now;
- driving further value and growth from our core business; and,
- building new growth businesses close to the core.

This may sound a bit boring but it is not – it is prudent, well thought through and best leverages our strengths.

Delivering brilliant customer experiences means offering customers simple, intuitive and increasingly digital ways to interact with us. While our customer experience scores are excellent with big enterprise customers we know that we fall down too often with consumers.

And that is significant because one way or another virtually everybody in Australia is a Telstra customer, whether directly as a Telstra mobile, fixed or broadband customer, or indirectly through our wholesale relationships with other providers.

As I said just now, despite our world class networks and coverage, too many customers will have had a bad experience with Telstra, or will know someone who has had a bad experience with Telstra. This has to be once and for all eliminated and we are doing everything that we possibly can to fix it. If we do this well, we will win more market share from our competitors which will mean more revenue and more earnings should follow.

Then driving value and growth from the core is about leveraging our strengths in networks and connectivity and making the best use of our skills, expertise and experience to deliver additional value. If we do this well our customers will be willing to pay more for better and better products and services.

And building new growth businesses close to the core recognises the opportunities we have to expand with new products and new services in new markets. If we do this well, we will increase our revenue and earnings from new but related areas and improve the retention of existing customers.

Everywhere we look there are these growth opportunities; 5G is coming with a huge range of new and upgraded opportunities; the Internet of Things where there are nearly 1b intelligent sensors today in Australia and the market is forecast to be worth \$5b in 5 years; driverless cars, drones, connected homes, artificial Intelligence, machine learning, smart cities, smart agriculture, and many, many more. These opportunities represent our future, but as fast as these new technologies are developing it is still going to take a few years before they are scale businesses that can replace the old legacy businesses that we are losing.

So despite today's challenges, we are in a strong position as we look to grow our business:

- We have one of the best overall management teams in the industry and certainly the best that I have seen in my time on the Board.
- We have an incredible mobiles business, which is, of course, built around the best network in the land.
- We deliver great earnings, have strong market share and are counted as a world leader in our industry.
- We are the largest reseller of the NBN.

- Our Network Applications and Services business grew income this year by 30 per cent and has become a \$3.3 billion dollar business from a standing start five years ago.
- Our productivity program took a quarter of a billion dollars of underlying core fixed cost out of the business this year, ahead of our target, and is on track to deliver \$1.5b of annual savings.
- And we continue to make targeted acquisitions in exciting new areas like cloud, workplace mobility, internet-of-things and cyber security.

These new capabilities leverage our already world class networks and will help us grow in the markets of the future.

One thing we think is critically important, therefore, is that we do not allow a pre-occupation with replacing the earnings lost through the NBN to be the defining point in our strategy.

Our strategy is about doing what we do now much better to drive value from the business we still have, rather than starting from the premise of having to go out and replace the lost earnings overnight. Put another way, we are not going to do anything foolish to plug the \$3 billion gap. It is critical Telstra makes bold choices and we will do that, but we have no intention of risking the company.

At the macro level, if we achieve a digital transformation of our company, and deliver as good a customer experience as the new, first generation businesses that I have mentioned, then we will transform our customer acquisition and customer retention, we will protect our balance sheet and we will build market share. Then over time these new markets will achieve scale and we will be a major player in most of them.

All of this will lead to materially improved financial outcomes from our core business as well as growth in the closely related markets of the future, which is always going to be a better road to follow than starting new businesses in markets we do not know so well.

Telstra remains a fantastic company with great people, great assets and great technologies – and we have many opportunities to grow without taking excessive risk.

## **9. In Conclusion**

In conclusion then, 2017 was a year of significant progress for Telstra, but also a year of significant change and challenge. Whether we like it or not, we have to accept that the world around us has changed dramatically and Telstra is having to change just as dramatically as well.

However, over our long history we have actually used periods of change in technology and challenges in industry structure to grow our company, and to move forward.

Changing our dividend policy is just one change among the many that we will need to make as we enter the exciting new world of the future, some we can control and some we cannot. But whatever the future brings, Telstra is an exceptional company with exceptional people and exceptional assets. There is no reason why we should not do just as well in this unknown world of the future as we have done in the past.

We must continue to develop our capabilities, build our resources, and make our networks stronger, faster and better so we can continue to be at the cutting edge of companies delivering the promise of the digital age. And as that digital age unfolds, we will be at the forefront and we will be better positioned than most of our competitors.

Lastly, we will not forget who our shareholders are and the responsibility that we have to them. We will continue to do everything that we can to deliver shareholder value through



dividends, capital management and other value enhancing activities, despite the changes that are going on around us.

In closing, I really want to sincerely thank Andy Penn, his senior executives, and the entire 32,000 strong Telstra team for their efforts in delivering the many achievements I have described this morning. They have one of the most difficult tasks in business today and I think that they are doing a fine job.

I would also like to thank my Board colleagues for their support and strategic guidance – all of us feel very privileged to lead this great company.

And I would like to thank you our shareholders for your patience and support.

And with that I will now hand over to your Chief Executive Officer Andrew Penn to comment on our operations for the year in more detail.

## **TELSTRA ANNUAL GENERAL MEETING 17 OCTOBER 2017**

### **CHIEF EXECUTIVE OFFICER'S SPEECH**

#### **Slide 1 - Welcome**

Thank you Chairman and good morning everybody.

We value this opportunity to meet with our shareholders, to keep you across the exciting future your company has, hear your thoughts and address your questions.

I would like to cover four things in my presentation this morning:

Firstly, I will provide you with an overview of how the company performed in the 2017 financial year.

Secondly, I will make some comments on the roll out of the nbn with a particular focus on what I feel are the critically important considerations and priorities for customers.

Thirdly, I will comment on the progress we are making in transforming your company to compete in this increasingly digitised world.

Finally, I will confirm our guidance for the 2018 financial year.

#### **Slide 2 - A year of strong progress**

Turning then firstly to our financial results.

2017 was a strong year and we are pleased to have delivered against our guidance and strategy in the context of a highly competitive and increasingly dynamic market.

Total income on a reported and guidance basis was up 4.3% to \$28.2b. Excluding the regulatory changes to the Mobile Terminating Access Service, or MTAS, and the Final Access Determination, or FAD, total income was up 5.9%.

EBITDA was up 2.0% to \$10.7b on a reported basis and up 4.5% to \$11.2b on a guidance basis.

On a guidance basis, excluding regulatory changes to MTAS and FAD, EBITDA was up 5%.

Net profit after tax from continuing operations was up 1.1% to \$3.9b.

Earnings per share was up 2.8% to 32.5 cents per share and the Board declared a final dividend of 15.5 cents per share which was paid in September.

This brought the total dividend for the year to 31 cents per share.

#### **Slide 3 – Highlights**

Our number one objective throughout the year was to improve the experience we provide our customers and while I know there is more we need to do, I am pleased that we have made progress.

Both strategic and episode Net Promoter Scores improved in the second half, up 6 points and 2 points respectively.

Our mobiles business performed strongly in 2017 and we saw continued customer growth across all key segments. New mobile services were up 218,000, including 169,000 post-paid handheld.

Retail fixed broadband services were up 132,000 and retail bundles were up 224,000.

Almost 90% of our retail fixed broadband customers are now on a bundle. The proportion of those who are on an entertainment bundle grew more than 50% and now represent approximately one third of all bundle customers.

Our Network Applications and Services business grew very strongly with income up over 30% to \$3.3b.

This was driven by major contract wins and renewals as well as growth in nbn commercial works.

Within NAS we achieved strong performances from our cyber security and unified communications businesses and from our cloud business, where revenue grew more than 50 per cent.

During the year we reduced underlying core fixed costs by 3.5% or \$244m, which was ahead of our target. On top of this we improved productivity in our new businesses where we reduced costs by an additional \$68m.

Given this strong performance we have increased and accelerated our productivity plans. We now intend to deliver our previous \$1b net productivity target one year early in FY20.

We have also increased this target by a further \$500m and in total we now plan to deliver more than \$1.5b in net productivity by FY22.

The focus of our productivity work is to deliver better customer outcomes. For example, through working with our assurance partners, we have increased first call resolution and achieved a 4% reduction in truck rolls.

This year we also further extended our mobile network with standard 4G coverage to 99% of the population and many sites further upgraded to 4GX covering 90% of the population.

Finally, we also continued to make good progress in the nbn market and added 676,000 new nbn connections taking our nbn market share, excluding satellite, to 52%.

#### **Slide 4 - nbn transition**

The rollout of the nbn is projected to now scale up significantly.

It is essential during this period that the whole industry remains focused on ensuring customers receive the best possible experience at an affordable price. 4 million homes are due to be connected over the next two years alone!

In this regard there are 3 areas of critical importance for our customers.

Firstly, the service experience.

Today the time taken to activate customers on the nbn can be considerably longer than for traditional broadband services. This is due to the extra complexity involved. We are working closely with nbn to assist them in streamlining our respective processes to ensure this becomes a more seamless experience.

Secondly, not all customers are receiving the speeds they were anticipating or hoping for. This can be for a number of reasons.

Critically available speeds are determined by the underlying technology that nbn chooses to rollout - whether this is fibre, cable, ADSL copper or other forms of technology. This choice has a material impact on the maximum speed available to customers.

Once the maximum speed available is determined by nbn's choice of technology in their area, the customer then chooses an appropriate plan from their Retail Service Provider, the RSP. The RSP must then purchase the right amount of capacity from nbn – this capacity is delivered through something known as CVCs.

The ACCC has recently issued guidelines to RSPs to ensure they purchase sufficient CVCs such that customers can expect that at least 60% of the maximum speed in their plan is available during the peak hours 7-10pm.

At Telstra our position is to provide the best network experience on the nbn. This is why we continually monitor traffic and adjust our CVCs to meet demand. We installed robotic testers in our network some time ago to measure customer speeds to ensure we are buying enough CVCs.

There are other factors that can affect the speed that customers experience. For example in home wiring and wifi configuration. Customers can find lots of tips on our website on how to optimise their broadband at home.

We are also continuing to develop products and tools to help our customers. These include our latest home gateways or modems with superior wifi performance, the Telstra Home Dashboard which helps customers diagnose issues in the home and an upcoming wifi solution that will help detect and automatically optimise wifi performance.

These, combined with Telstra's Platinum service are all targeted to deliver the best possible experience for our customers in an nbn world.

If customers are still not experiencing what they anticipated, it is quite likely to be a fault in the nbn network or some other factor. In which case they should contact us so that we can investigate and advise nbn accordingly.

The third and final factor affecting customers in the migration to the nbn is affordability. Due to the significant costs associated with the rollout of the nbn, wholesale broadband prices in Australia from nbn are increasing by almost 100% in the migration. This will increase by a further 20-25% over the next 3-4 years under nbn's plans.

nbn is currently conducting a review of its prices and it will be important in the long term that wholesale prices are set at a level which ensures affordability of broadband for all Australians.

I wanted to turn now to the progress we have made on our broader strategic transformation.

## **Slide 5 - Telstra vision history**

Telstra is a telecommunications company with more than 100 years of history, a history of connecting people and businesses in Australia and around the world.

We have always been a leader in innovation. We have always believed technology can bring tremendous benefits for businesses, society and the nation. That is why we are always investing and always innovating.

In the 1900s Telstra built the first trunk telephone connections between Sydney and Melbourne. It was the end of the age of the telegram.

In the 1960s Telstra laid the first coaxial cables, carrying telephone and TV as well as the first satellite transmissions.

In the 1980s Telstra launched the first mobile phones in Australia.

And in the 2000s we were the first to launch 3G and then the first to launch 4G.

Many of these investments marked major transformational periods in technology innovation. We see another one now as the rate and pace at which our world is digitising increases.

## **Slide 6 - Telstra Vision – a world class technology company that empowers people to connect**

In recognition of this, two years ago we launched our vision to become a world class technology company that empowers people to connect.

There are two reasons for this change of emphasis?

Firstly, it is often said that today every business in every industry needs to be a technology company, but this concept has special meaning for us at Telstra. That is because the traditional worlds of telecommunications and computing are converging.

What I mean by this is that there is no technology innovation happening today that is not intended to be connected - from drones to driverless cars, cloud computing to online banking, ecommerce to the internet of things. All these applications have one thing in common; they rely on high quality, fast, reliable and secure telecommunications networks.

We are an organisation with a long history and deep skills in network and electrical engineering, a world leader. We have applied these skills to build the best telecommunications network in Australia.

But to support these technology innovations, these new applications and services, we need to build new skills in new areas - in software engineering, in data science, in artificial intelligence and in quantum computing.

And that is exactly what we are doing.

The second reason for this change of emphasis is these applications and services are driving significant data growth on our network - for example streaming services such as Netflix as the Chairman referenced earlier.

Telecommunications companies globally have been investing tens of billions of dollars over recent years so customers can enjoy downloading high definition movies and TV shows from streaming services like Netflix.

Today, Netflix is worth \$100b. However, the telecommunications companies who make the experience possible, have not captured value to anywhere near the same extent. This has reduced returns on invested capital in the industry globally.

But we should not see this as a threat. We should see it as an opportunity. That is why we are technology optimists. However, if we are going to take advantage of this opportunity we must lead in the future not only in our network but also in offering the best applications and services on our network.

This is why our vision is to be a world class technology company that empowers people to connect.

### **Slide 7 - Our markets are rapidly evolving**

As you also heard from the Chairman through we need to move fast, we need to accelerate our change.

Our world is not standing still. We are seeing increased competition. We are seeing increased digital disruption. We are also experiencing the unique dynamic of the nbn which has the impact of reducing our EBITDA by approximately \$3b.

It is against this background that we have made two critical decisions.

Firstly we have increased our level of investment by \$3bn over next three years which I will talk about more in a moment.

Secondly we are implementing a new dividend policy where we will retain some capital to invest in the future, and maintain balance sheet strength and flexibility.

This was a tough decision and we do not underestimate the impact of this on you, our shareholders.

But it is an important decision. It is about setting the business up for success in the future, giving ourselves the flexibility to invest and to compete effectively.

### **Slide 8 - Strategic Investment Program**

In our history, it is at pivotal moments like this that we have made important decisions, to invest in our differentiation and move to the next technology first and fast.

We did this with 3G, we did it with our NextGen IP network, we did it with 4G and we are doing it again now with the \$3b of incremental investment we are making.

The investment is targeted at achieving a step change in our customer experience.

In this regard we are investing in the network of the future. With data on network growing around 40% per annum, we will need five times the capacity of today's traffic by the early 2020s.

This is also about building the foundations for the next generation of network – it is about 5G, it is about the platform for the Internet of Things, and it is about new standards of resiliency and redundancy.

The second of our major investments under the program is in digitisation.

New companies are changing the nature of the experiences our customers are receiving and we need to improve ours. We also need to improve the digitisation of our core operating environment.

Through these investments we expect to deliver:

- A step change in our customer experience; and
- Incremental EBITDA of \$500m per annum by FY21

### **Slide 9 - We have made great progress**

We have made good progress on achieving our vision over the last 2 years, including early progress with these investments.

While I know we have more to do, I would like to take a moment to step back and recognise some of the progress we have made.

Firstly, we have simplified our business and strategy and we are aligning our new investments much more closely to our core as we did with our purchase of Pacnet. We are also investing in continuing to lead with the best network, and in applications and services on the network for our customers.

Secondly, we are accelerating innovation within the company – through Telstra Ventures, through Muru D and through Telstra Labs which now includes software and hardware labs, Australia's first open IoT lab, a 3D printing lab and collaboration areas for our partners and customers.

This year we were ranked number one in the ASX50 for innovation in the Australian Corporate Innovation Index.

Thirdly we are making progress in building the capabilities we need for the future. For example we are working to meet the ever-growing, ever-changing risks associated with cyber security.

In Australia the rate of cyber-crime has doubled in the past 12 months.

This year we have added significantly to our existing capabilities through the establishment of new Security Operation Centres. These Centres support our global network of more than 500 cyber security experts.

Fourthly we are delivering new market leading digitally enabled applications and services.

In addition to monitoring our own network and operations, these new security centres work in conjunction with our digitally enabled managed security services and enable us to monitor, detect and respond to security incidents for our enterprise customers.

Our future plans are to bring new products to market which will further extend these capabilities to consumers and small businesses with enterprise grade cyber security protection from unwanted and malicious online traffic for all.

We have also launched the Telstra programmable network to our enterprise customers which, enables them to dynamically manage their network and cloud needs digitally. Where it used to take 6 months to stand up a new complex service, customers can now do for themselves in a matter of minutes.

We are also launching new offers for consumers.

Telstra TV provides a fantastic digitally enabled media service for customers. With almost one million services already in market we will be launching Telstra TV2 next week with extensive new format including the integration of free to air TV and universal searching.

Last month we also launched Belong Mobile.

This builds on the success of Belong in in the fixed market attracting new broadband customers with simple no frills offers.

To support all of these digitally enabled offers, we are leveraging our global relationships with world leading technology companies. We have important partnerships with Google, Facebook, Apple, Microsoft, IBM, Cisco, Ericsson, Tesla and many others. Bringing the best technology globally and combining it with the best network in Australia.

The fifth area where we are making progress is through our network investments, where we are improving resiliency and redundancy and building some of the critical platforms for the future

For example we are well progressed building the foundations for the next generation of mobile technology, 5G.

What sets 5G apart from earlier generations is it's extremely low latency enabling the time between a request for data being sent and the data being received to be in the single milliseconds.

As a consequence, 5G will enable revolutionary new automation technologies including autonomous driving.

As a leader in setting Telco standards globally, Telstra will be hosting the 3GPP, which is the global standards setting body on the Gold Coast next year. At this meeting we expect many of the key global standards for 5G to be discussed.

We have also commenced the roll out of our next generation optical transmission capability. This is the backbone of the network around the country that carries the consolidated data from all of our networks.

These investments will give us the capability to increase speeds to more than 100 terabits per second on both our undersea and overland cables.

Finally on the network we have also recently launched CATM1.

This is the network platform for the Internet of Things, enabling millions of low power devices and sensors to be connected. This is important because in the future everything that can be connected will be connected.



We now have now extended the platform across our 4G network with more than 3 million square kilometres of coverage across the country.

This will support applications in logistics, agritech, mining and resources, retail, healthcare and many other sectors.

Through these investments not only do we now have the largest, the most reliable, and the fastest network in Australia, we also have the smartest.

In summary, this is a significant program of investment that positions Telstra strongly for the future.

While the operating environment will be tough over the next 2 - 3 years for the reasons both the Chairman and I have already highlighted, these investments will support our core business and open up valuable new opportunities for growth in the future.

Before concluding, let me reconfirm our guidance for the year.

### **Slide 10 - Guidance**

In FY18, we expect Income to be in the range of \$28.3 to \$30.2bn and EBITDA to be in the range of \$10.7 to \$11.2bn.

Guidance for EBITDA is after absorbing incremental restructuring costs of \$200 to \$300m to support our increased productivity target.

We expect net one-off nbn DA receipts less the net cost to connect to be in the range of \$2 to \$2.5bn.

We expect to spend capex in the range of \$4.4 to \$4.8bn or approximately 18% of sales.

Finally we expect free cash flow to be in the range of \$4.4 to \$4.9bn.

As is usually the case, the basis on which we provide guidance are detailed in the footnotes to the documents lodged with the ASX this morning.

### **Slide 11 - Conclusion - Telstra transformed**

Let me summarise before I hand back to the Chairman.

In 2017 we demonstrated strong financial performance and delivered against our guidance.

We continued to grow customer numbers and delivered strong performances in mobiles, NAS and productivity.

We are on track in our transformation, and we have delivered important new capabilities creating the network for the future.

We made an incredibly difficult, but critically important decision to introduce a new dividend policy.

Finally, we increased our level of aspiration in relation to productivity and will deliver more productivity, and deliver it sooner.

There is no doubt the operating environment has become more challenging with significant data growth, increased competition, digital disruption and the migration to the nbn over the next 2 - 3 years.

Against this background the decisions and the investments we are making are critical to ensure our success in the future. We are confident that they will not only strengthen and differentiate our business, they will also open up new opportunities for growth.

The ultimate mark of our success will be the quality of the experiences we provide our customers and, above all else, that is what underpins our strategy, guides our actions, directs our investments and defines our future.

We are working to take Telstra to the next level, to set a new standard of excellence and to become a world class technology company that empowers people to connect.

I would like to finish by thanking the whole Telstra team for their hard work. I would also like to thank the Chairman and the Board for their support and guidance.

Thank you again for your time this morning and I will now hand back to the Chairman.

# Annual General Meeting 2017

## Andrew Penn Chief Executive Officer



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## FULL YEAR 2017 RESULTS | HEADLINES



Reported	Guidance basis <sup>1</sup>	Guidance and ex-MTAS & FAD <sup>2</sup>
<b>Total income<sup>3</sup></b> \$28.2 billion, +4.3%	<b>Total income<sup>3</sup></b> \$28.2 billion, +4.3%	<b>Total income<sup>3</sup></b> \$28.2 billion, +5.9%
Reported	Guidance basis <sup>1</sup>	Guidance and ex-MTAS & FAD <sup>2</sup>
<b>EBITDA</b> \$10.7 billion, +2.0%	<b>EBITDA</b> \$11.2 billion, +4.5%	<b>EBITDA</b> \$11.2 billion, +5.0%
Continuing operations	Continuing operations	Final dividend: 15.5cps taking total dividend for FY17 to 31cps
<b>NPAT</b> \$3.9 billion, +1.1%	<b>EPS<sup>4</sup></b> 32.5 cents, +2.8%	

1. This guidance assumed wholesale product price stability and no impairments to investments, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumed the nbn™ rollout was in accordance with the nbn Corporate Plan 2016. Capex to sales guidance excluded externally funded capex. Guidance excluded the Ooyala impairment in FY16 and restructuring costs in FY17.
2. Guidance and ex-MTAS & FAD is on a guidance basis and adjusting FY16 for MTAS and FAD impacts of \$408m sales revenue, \$362m operating expenses and \$46m EBITDA. Fixed Line Services FAD became effective on 1 November 2015, MTAS FAD became effective from 1 January 2016 and DTCS FAD became effective on 21 April 2016.
3. Total income excludes finance income.
4. Basic earnings per share from continuing and discontinued operations FY17 32.5 cents (FY16 47.4 cents).



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## FULL YEAR 2017 RESULTS | HIGHLIGHTS

<p>\$5.2bn returned to shareholders via dividends and share buy-backs</p> 	<p>↑ Strategic NPS +6 points over last 6 months (flat compared to June 2016); Episode NPS +2 points over last 6 months (+3 points compared to June 2016)</p>	<p>Strong customer growth across key segments:</p> <ul style="list-style-type: none"> <li>• Domestic retail mobile +218,000 including 169,000 postpaid handheld</li> <li>• Domestic retail fixed broadband +132,000</li> <li>• Retail bundles +224,000 (88% of fixed data customer base)</li> </ul>
<p>↑ NAS income growth of 30.6% with 3pp improvement in EBITDA margin</p>	<p>Mobile service revenue growth +0.7% in second half, EBITDA margin 43%, churn reduced</p> <p>nbn™ market share<sup>1</sup> of 52% with 676,000 new nbn connections</p>	<p>Underlying core fixed costs declined 3.5%, or \$244 million</p> <p>4G network now reaching 99% of population</p> 
<p>We have delivered against our guidance and strategy in the context of a highly competitive and dynamic market</p>		

1. Excluding satellite

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# NATIONAL BROADBAND NETWORK

## Service and Activation



## Speeds and received experience



## Affordability



# 100+ YEARS OF TELECOMMUNICATIONS



## Telecom's Mobile Phone



## OUR VISION IS TO BECOME A WORLD CLASS TECHNOLOGY COMPANY THAT EMPOWERS PEOPLE TO CONNECT

1. Traditional worlds of technology and computing are converging



2. Demand is growing, but value is captured at the layer of applications and services



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## OUR MARKETS ARE EVOLVING RAPIDLY

Competitive dynamics



Digital disruption



Regulatory and macro economics



Migration to nbn™



Two critical decisions:

1. Strategic investment program – investing up to \$3bn incremental capex over 3 years to 30 June 2019

2. New dividend policy



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# STRATEGIC INVESTMENT PROGRAM

- Investing up to \$3 billion incremental capex to achieve a step change in customer experience
- Total capex (including spectrum) over the 3 years to 30 June 2019 to exceed \$15 billion
- Financial benefit of >\$500 million per annum realised by FY21

Customer Experience					
Networks for the future			Digitisation		
The New Generation Network	Mobile Leadership		Digital Experiences (Customer)	Digital Experiences (Employee)	
Greater Network Resilience	New Services		Digital Platforms	Digital Ways of Working	



# WE ARE MAKING GOOD PROGRESS

<p><b>Simplified business</b> Refocused our strategy on new growth and adjacencies closer to the core</p>	<p><b>Innovation</b> Initiatives aimed at lifting the level of innovation</p>	<p><b>Building capability for the future</b> Creating new customer-inspired culture and capabilities</p>
<p><b>Applications and services</b> Delivering world-leading digital experiences for our customers</p>	<p><b>Networks</b> Completed key items in major network resiliency and redundancy program</p>	<p><b>Repositioning the Telstra brand</b> To create better ways to empower everyone to thrive in a connected world</p>



## FY18 GUIDANCE<sup>1</sup>

Measure	FY17	FY18 GUIDANCE
Total income	\$28.2b	\$28.3b to \$30.2b
EBITDA	\$10.7b	\$10.7b to \$11.2b
Net one-off nbn DA receipts less nbn net C2C	\$1.3b	\$2.0b to \$2.5b
Capex	\$4.6b	\$4.4b to \$4.8b
Free cashflow	\$4.3b	\$4.4b to \$4.9b

1. This guidance assumes wholesale product price stability and no impairments to investments, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. The guidance also assumes the nbn™ rollout is broadly in accordance with the nbn Corporate Plan 2017. Capex excludes externally funded capex.



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## CONCLUSION

We delivered strong financial results consistent with guidance

We are on track in the early stages of our transformation

We have completed our capital allocation review and dividend policy

We are increasing our level of aspiration in relation to productivity and will deliver sooner

Our operating environment is becoming more challenging

We are confident our investments will strengthen and differentiate our business and open opportunities for growth

We are committed to transforming the experience provided to our customers



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## **TELSTRA ANNUAL GENERAL MEETING - 17 OCTOBER 2017 REMUNERATION COMMITTEE CHAIRMAN'S INTRODUCTORY REMARKS FOR ITEMS 4 AND 5**

Thank you John and good morning fellow shareholders.

I will firstly provide you with an overview of our remuneration outcomes for FY17 as explained in our Remuneration Report, before looking ahead to 2018 and the introduction of the EVP.

Our Remuneration Report provides a comprehensive overview of our performance and remuneration outcomes for financial year 2017, as well as a summary of our governance practices.

Through our Remuneration Report we seek to enable you, our shareholders and interested stakeholders, to understand the links between remuneration, company strategy and Telstra's performance, and the framework we have in place to provide effective governance over remuneration at Telstra.

During FY17 there were no Fixed Remuneration increases and no changes to the short term incentive (or STI) and long term incentive (or LTI) opportunities as a percentage of Fixed Remuneration for our Senior Executives. The Senior Executive remuneration mix has remained the same since 2013.

Our remuneration policy is designed to link financial rewards directly to employee contributions and company performance, and the financial year 2017 remuneration outcomes for Senior Executives are consistent with this.

Looking at the short term incentive outcomes, as you have heard this morning, 2017 was a year of solid progress for the company, a year where we delivered on our guidance to the market and made progress in improving customer service.

The outcomes under the FY17 STI Plans therefore reflect the performance of the business, with Senior Executives receiving an average of 41.3% of the maximum opportunity.

This reflects Telstra's performance on the Free Cashflow, EBITDA, Episode NPS and Strategic NPS performance measures. We did not achieve our Total Income measure resulting in no payment on this component.

The Board exercised discretion in determining the outcomes of the financial measures to ensure there were no windfall gains or losses due to the timing of the nbn network rollout, spectrum purchases, and material acquisitions and divestments.

The Board also considered and adjusted for restructuring costs to ensure management did not receive any windfall gains.

While the aggregate effect of these adjustments on the FY17 STI results was a positive adjustment, overall the resulting impact on the FY17 Senior Executive STI plan payments was negligible, at less than half of one per cent.

Turning to the long term incentive outcomes, as we did not perform against our Relative Total Shareholder Return and Free Cashflow Return on Investment targets, Senior Executives received no remuneration under the FY15 LTI Plan.

When assessing performance under the FY15 LTI plan, the Board did not make any adjustments, and therefore did not provide any relief, for the effects of our strategic investment program.

This is the program we announced in August last year which involves an additional investment of up to \$3 billion over three years on our networks for the future and digitisation.

The reason the Board did not make any adjustment was because the FY15 LTI plan was already in place when the strategic investment program was announced. This principle will also be applied to the FY16 LTI plan which will be tested at 30 June 2018.

For the FY17 LTI plan, when the FCF ROI measure is tested at the end of FY19, any reward will reflect the Board's assessment of management's performance in delivering against the strategic investment program. This will include both the cost and the benefits of the program in the performance period.

Turning to non-executive Director remuneration, there were no changes to non-executive Director or Committee fees during FY17.

In FY17, Telstra conducted a review of its fees for non-executive Director roles relative to other major companies in the ASX20.

The results of that review found the fees for the role of Remuneration Committee Chair and Remuneration Committee Members, which had remained the same since August 2010, had not kept up with market rates for similar companies. The fees for these roles at other companies had changed as a result of their increased responsibilities on governance and accountabilities to shareholders.

Effective from 1 July 2017, the Board has increased the fee for the role of Remuneration Committee Chair by \$6,000 to \$56,000 and for Remuneration Committee Members by \$3,000 to \$28,000.

No other changes were made to non-executive Director or Committee fees.

Looking ahead to 2018, we have implemented a new, simpler remuneration structure for our senior executives in the form of the Executive Variable Plan. As we mentioned earlier, the proposed allocation of equity to the CEO under item 4 is based on this EVP.

The EVP has been developed following a review of our remuneration structures for the CEO and our Group Executives, including our long term incentive plan structure, which was complex.

It combines our existing STI and LTI arrangements into a simplified single incentive plan.

Importantly, there has been no change to either the target or the maximum opportunity that the CEO or Senior Executives can earn under the plan.

The new EVP is designed to continue to drive performance against customer experience and financial metrics which create long term shareholder value, and rewards management in a way that provides both a better link to executive performance, and alignment to shareholders through longer term equity rewards.

This is achieved by a more significant proportion of the reward tested against the Relative Total Shareholder Return of a comparator group, in future comprising the ASX100 excluding resource companies.

The EVP extends the overall plan to five years (from the current four) which further aligns executive reward to shareholder interests.

Consistent with our strategy to deliver brilliant customer experiences, NPS continues to be a significant component of the plan. The NPS system tells us how our customers perceive Telstra and we believe this measure is the most effective indicator of our progress in delivering on this aspect of our strategy.

Finally, we understand the importance to our shareholders of continuing to enhance the insight we provide on the link between remuneration and executive and company performance.

As we introduce the EVP, we are committed to continuing to focus on the transparency with which we explain how remuneration outcomes are determined in future Remuneration Reports.

The Board (other than Andrew Penn) recommends shareholders vote in favour of item 4, the allocation of equity to the CEO under the EVP.

The Board also recommends that shareholders vote in favour of item 5, the adoption of the Remuneration Report.

I will now take any questions you may have on items 4 and 5.

Thank you shareholders.